

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Pierson	County Montcalm
Audit Date 3/31/05	Opinion Date 8/13/05	Date Accountant Report Submitted to State: 11/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

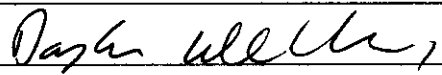
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Douglas Wohlberg, CPA			
Street Address PO Box 1013	City Byron Center	State MI	ZIP 49315
Accountant Signature 		Date 11/16/05	

Village of Pierson

Montcalm County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Year Ended March 31, 2005

Village of Pierson

Montcalm County, Michigan

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March 31, 2005

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Pierson
Montcalm County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Village of Pierson as of and for the year ended March 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Pierson management. Our responsibility is to express opinions on these financial statements based on our audit.

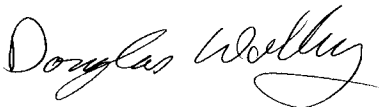
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Village of Pierson as of March 31, 2005, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

As described in Note 12, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, and related statements as of April 1, 2004. In adopting this statement, the financial statements now include government-wide full accrual financial statements and reorganized fund-based statements.



Byron Center, Michigan
August 13, 2005

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Village of Pierson

Montcalm County, Michigan

Statement of Net Assets

For the year ended March 31, 2005

	Governmental activities	Business type activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,466	\$ 20,514	\$ 27,980
Receivables (net)	-	6,453	6,453
Internal balances	2,832	(2,832)	-
Capital assets (net)	182,850	479,666	662,516
TOTAL ASSETS	\$ 193,148	\$ 503,801	\$ 696,949
LIABILITIES			
Accrued and other liabilities	\$ 820	\$ -	\$ 820
Due within one year	7,430	-	7,430
Due in more than one year	14,153	49,000	63,153
TOTAL LIABILITIES	22,403	49,000	71,403
NET ASSETS			
Invested in capital assets	161,267	430,666	591,933
Unrestricted	9,478	24,135	33,613
TOTAL NET ASSETS	170,745	454,801	625,546
TOTAL LIABILITIES AND NET ASSETS	\$ 193,148	\$ 503,801	\$ 696,949

The Notes to the Financial Statements are an integral part of this statement.

Village of Pierson

Montcalm County, Michigan

Statement of Activities

For the year ended March 31, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for services	Operating grants and contributions
<u>PRIMARY GOVERNMENT ACTIVITIES</u>			
General government	\$ 27,767	\$ 16,079	\$ -
Public works	45,988	-	23,949
Community and economic development	325	-	-
Recreation and culture	2,209	-	-
Total Governmental activities	76,289	16,079	23,949
<u>BUSINESS TYPE ACTIVITIES</u>			
Sewer	51,148	32,959	-
Total Primary government	\$ 127,437	\$ 49,038	\$ 23,949

General Revenues

Property taxes

State-shared revenue

Unrestricted investment income

Miscellaneous

Transfers

Transfers out

Total general revenues - special items and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The Notes to the Financial Statements are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental activities	Business-type activities	Total
\$ (11,688)	\$	(11,688)
(22,039)		(22,039)
(325)		(325)
(2,209)		(2,209)
(36,261)		(36,261)
	(18,189)	(18,189)
(36,261)	(18,189)	(54,450)
18,428	-	18,428
20,162	-	20,162
-	1,763	1,763
689	1,210	1,899
2,983	-	2,983
(2,983)	-	(2,983)
39,279	2,973	42,252
3,018	(15,216)	(12,198)
167,727	470,017	637,744
\$ 170,745	\$ 454,801	\$ 625,546

The Notes to the Financial Statements are an integral part of this statement.

Village of Pierson

Montcalm County, Michigan

Governmental Funds

Balance Sheet

March 31, 2005

	General Fund	Major Streets Special Revenue Fund	Local Streets Special Revenue Fund	Total
ASSETS				
Cash	\$ 3,250	\$ 3,260	\$ 956	\$ 7,466
Due from other funds	3,955	-	-	3,955
TOTAL ASSETS	\$ 7,205	\$ 3,260	\$ 956	\$ 11,421
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ -	\$ 670	\$ 453	\$ 1,123
Payroll deductions payable	820	-	-	820
TOTAL LIABILITIES	820	670	453	1,943
FUND BALANCES				
Reserved for Streets	-	2,590	503	3,093
Unreserved	6,385	-	-	6,385
TOTAL FUND BALANCES	6,385	2,590	503	9,478
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,205	\$ 3,260	\$ 956	\$ 11,421

The Notes to the Financial Statements are an integral part of this statement.

Montcalm County, Michigan

Montcalm County, Michigan

Reconciliation of Fund Balance of Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

For the year ended March 31, 2005

Total fund balances - total governmental funds	\$	9,478
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets at cost	323,100
Accumulated depreciation	(140,250)
Net capital assets	182,850

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Balances at March 31, 2005 were:

Installment purchase contracts payable	(21,583)
Net assets of governmental activities	\$ 170,745

The Notes to the Financial Statements are an integral part of this statement.

Village of Pierson

Montcalm County, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

For the year ended March 31, 2005

	General Fund	Major Streets Special Revenue Fund	Local Streets Special Revenue Fund	Total
REVENUE				
Property taxes	\$ 18,428	\$ -	\$ -	\$ 18,428
State grants	20,162	17,205	6,745	44,112
Licenses and permits	1,582	-	-	1,582
Charges for services	14,496	-	-	14,496
Other revenue	286	403	-	689
TOTAL REVENUE	54,954	17,608	6,745	79,307
EXPENDITURES				
General government	20,956	-	-	20,956
Planning	325	-	-	325
Parks and recreation	334	-	-	334
Public works	15,419	13,600	9,974	38,993
Street lighting	3,070	-	-	3,070
Other	11,299	-	-	11,299
TOTAL EXPENDITURES	51,403	13,600	9,974	74,977
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,551	4,008	(3,229)	4,330
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,983	2,983
Transfers out	-	(2,983)	-	(2,983)
TOTAL OTHER FINANCING SOURCES (USES)	-	(2,983)	2,983	-
NET CHANGE IN FUND BALANCES	3,551	1,025	(246)	4,330
FUND BALANCES, BEGINNING OF YEAR	2,834	1,565	749	5,148
FUND BALANCES, END OF YEAR	\$ 6,385	\$ 2,590	\$ 503	\$ 9,478

The Notes to the Financial Statements are an integral part of this statement.

Village of Pierson

Montcalm County, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended March 31, 2005

Net change in fund balances - total governmental funds	\$	4,330
Amounts reported for governmental activities in the statement of activities are different because:		
Repayment of loan principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		6,988
Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Depreciation		(8,300)
Change in net assets of government activities	\$	3,018

The Notes to the Financial Statements are an integral part of this statement.

Village of Pierson

Montcalm County, Michigan

Proprietary Funds

Statement of Net Assets

March 31, 2005

		Sewer Fund
<u>ASSETS</u>		
Current assets		
Cash	\$	2,013
Accounts receivable		6,453
Total current assets		8,466
Noncurrent assets		
Restricted cash		18,501
Capital assets		479,666
Total Noncurrent assets		498,167
TOTAL ASSETS	\$	506,633
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Due to other funds	\$	2,832
Total current liabilities		2,832
Long-term debt		
Bonds payable		49,000
Total noncurrent liabilities		49,000
TOTAL LIABILITIES		51,832
NET ASSETS		
Invested in capital assets - net of related debt		430,666
Unrestricted		24,135
TOTAL NET ASSETS		454,801
TOTAL LIABILITIES AND NET ASSETS	\$	506,633

The Notes to the Financial Statements are an intergral part of this statement.

Village of Pierson

Montcalm County, Michigan

Proprietary Funds

Statement of Revenue, Expenses and Changes in Net Assets

For the year ended March 31, 2005

<u>Sewer Fund</u>	
<u>OPERATING REVENUE</u>	
Charges for services	\$ 32,959
<u>OPERATING EXPENSES</u>	
Salaries	9,615
Supplies	826
Contractual services	15,477
Utilities	3,834
Maintenance	491
Rent	972
Depreciation	18,608
<u>TOTAL OPERATING EXPENSES</u>	<u>49,823</u>
<u>OPERATING INCOME (LOSS)</u>	<u>(16,864)</u>
<u>NONOPERATING REVENUE (EXPENSES)</u>	
Interest on investments	1,763
Reimbursements	1,210
Interest expense	(1,325)
<u>TOTAL NONOPERATING REVENUES (EXPENSE)</u>	<u>1,648</u>
<u>Income (loss) before contributions and transfers</u>	<u>(15,216)</u>
<u>CHANGE IN NET ASSETS</u>	<u>(15,216)</u>
<u>NET ASSETS, BEGINNING OF YEAR</u>	<u>470,017</u>
<u>NET ASSETS, END OF YEAR</u>	<u>\$ 454,801</u>

The Notes to the Financial Statements are an integral part of this statement.

Village of Pierson

Montcalm County, Michigan

Proprietary Funds

Statement of Cash Flows

For the year ended March 31, 2005

	Sewer Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 32,959
Payments to suppliers	(21,600)
Payments to employees	(9,615)
Other receipts (Payments)	1,210
Net cash provided (used) by operating activities	2,954
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Principal and interest paid on capital debt	(5,325)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest and dividends	1,763
Net increase (decrease) in cash and cash equivalents	(608)
Balances - beginning of year	21,122
Balances - end of year	\$ 20,514
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	
Operating income (loss)	\$ (16,864)
Provided (used) by operating activities	
Depreciation expense	18,608
Other receipts	1,210
Net cash provided by operating activities	\$ 2,954

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Pierson conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Village of Pierson:

A. Reporting Entity

The Village of Pierson was incorporated under the provisions of Act 8, P.A. 1895 as amended as a General Law Village. The Village operates under a President-Council form of government and provides the following services as authorized by its charter: public safety, public works, culture and recreation, public improvement, and general administration services.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Village of Pierson's property tax is levied on each December 1 on the taxable valuation of property (as defined by State statutes) located in Village of Pierson as of the preceding December 31st.

Although Village of Pierson's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is Village of Pierson's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of Village of Pierson totaled \$1,902,546, on which ad valorem taxes levied consisted of the following:

	Mills levied	Raising
Operating	9.5350 \$	18,141

These amounts are recognized in the General Fund financial statements as taxes receivable-current.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund and the Local Street Fund account for Act 51 money received from the State of Michigan for the maintenance and construction of streets in the Village.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage disposal system.

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments--Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables--In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

Inventories and Prepaid Items--Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets--Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer Lines	50 to 75 years
Roads	40 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Long-Term Obligations--In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information--Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village normally follows these procedures in establishing the budgetary data reflected in the financial statements:

The Village Administration submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.

The operating budget includes proposed expenditures and the means of financing them.

A public hearing is conducted at the Village hall to obtain taxpayer comments.

The budget is legally adopted by ordinance before March 1.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village Council throughout the operating year.

The Village adopts budgets for the General Fund and the Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved as amended by the Village Council.

The legal level of control is at the activity level of the General Fund, and at the fund expenditure totals for the and Special Revenue funds.

The Village Manager is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Village Council.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes Village of Pierson to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village of Pierson Council has designated one bank for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and Certificate of Deposits, but not the remainder of State statutory authority as listed above.

The Village of Pierson's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

		Governmental activities		Business-Type activities		Total Primary Government
Cash and cash equivalents	\$	7,466	\$	20,514	\$	27,980

The bank balance of the Village's deposits is \$29,162, of which \$29,162 is covered by federal depository insurance and \$0 is uninsured and uncollateralized.

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Balance March 1, 2004	Additions	Disposals	Balance March 31, 2005
Assets not being depreciated	\$ 3,100	\$	\$	\$ 3,100
Capital assets being depreciated:				
Buildings	275,000			275,000
Equipment	45,000			45,000
Subtotal	320,000			320,000
Accumulated depreciation:				
Buildings	91,250	6,875		98,125
Equipment	40,700	1,425		42,125
Subtotal	131,950	8,300		140,250
Net capital assets being depreciated	188,050	(8,300)		179,750
Net capital assets	\$ 191,150	\$ (8,300)	\$	\$ 182,850

Business-Type Activities	Balance March 1, 2005	Additions	Disposals	Balance March 31, 2005
Capital assets being depreciated:				
Buildings and improvements	744,330			744,330
Subtotal	744,330			744,330
Accumulated depreciation:				
Buildings and improvements	246,056	18,608		264,664
Subtotal	246,056	18,608		264,664
Net capital assets being depreciated	498,274	(18,608)		479,666
Net capital assets	\$ 498,274	\$ (18,608)	\$	\$ 479,666

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$	2,500
Recreation and culture		1,875
Public works		3,925
Total governmental activities	\$	8,300

Business-Type activities:

Sewer	\$	18,608
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NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of the interfund balances as of March 31, 2005, is as follows:

Receivable fund	Payable fund	Amount
General Fund	Major Streets Fund	\$ 670
General Fund	Local Streets Fund	453
General Fund	Sewer Fund	2,832
		\$ 3,955

Interfund Transfers

	<u>Transfers Out</u>
Transfers In	General Fund
Local Street Fund	\$ 2,983

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 6 - LONG-TERM DEBT

Bond and contractual obligation activity can be summarized as follows:

	Balance March 1, 2004	Additions	Reductions	Balance March 31, 2005	Due within one year
Governmental activities					
Loans					
Firstbank - Lakeview	\$ 28,570	\$ -	\$ 6,987	\$ 21,583	\$ 7,430
Business type activities					
Bonds					
1984 Sewer Bonds	53,000	-	4,000	49,000	5,000
Total Long-Term Debt	\$ 81,570	\$ -	\$ 10,987	\$ 70,583	\$ 12,430

Annual debt service requirements to maturity for the above obligation follows:

December 31,	Principal	Interest	Total
2006	\$ 12,430	\$ 4,963	\$ 17,393
2007	12,900	4,105	17,005
2008	11,253	3,216	14,469
2009	6,000	2,635	8,635
2010	7,000	2,170	9,170
2011	7,000	1,627	8,627
2012	7,000	1,085	8,085
2013	7,000	542	7,542
Totals	\$ 70,583	\$ 20,343	\$ 90,926

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 7 - SEGMENT INFORMATION

The Village operates one fund which provide sewage services. Summary financial information for the sewer department is presented below:

Condensed Statement of Net Assets

	Sewer Fund
Assets	
Current assets	\$ 8,466
Restricted assets	18,501
Capital assets	479,666
Total Assets	506,633
Liabilities	
Current liabilities	2,832
Noncurrent liabilities	49,000
Total Liabilities	51,832
Net Assets	
Invested in capital assets	430,666
Unrestricted	24,135
Total Net Assets	\$ 454,801

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

Condensed Statement of Revenue, Expenses, and Changes in Net Assets

	Sewer Fund
Sewer Charges	\$ 32,959
Depreciation	(18,608)
Other operating expenses	(31,215)
Operating income	(16,864)
Nonoperating revenue (expense)	
Investment earnings	1,763
Interest expense	(1,325)
Reimbursements	1,210
Total nonoperating revenue and expenses	1,648
Changes in net assets	(15,216)
Beginning net assets	470,017
Ending net assets	\$ 454,801

Condensed Statement of Cash Flows

	Sewer Fund
Net cash provided by (used in)	
Operating activities	\$ 2,954
Capital and related financing activities	(5,325)
Investing activities	1,763
Net increase (decrease) in cash	(608)
Beginning cash and cash equivalents	21,122
Ending cash and cash equivalents	\$ 20,514

Village of Pierson

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended March 31, 2005

NOTE 8 - RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue bond restrictions	\$	18,501
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NOTE 9 - RISK MANAGEMENT

Village of Pierson is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village of Pierson obtains commercial insurance coverage through the Michigan Municipal League for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

The Village has no post-retirement benefit plans at this time other than its pension plan.

NOTE 11 - NET ASSETS PRIOR PERIOD ADJUSTMENT

The entity wide net assets beginning balance was adjusted for the inclusion of capital assets of \$191,150 and a bank note of \$28,570.

NOTE 12 - ACCOUNTING AND REPORTING CHANGE

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Village of Pierson has applied the provisions of this statement in the accompanying financial statements, except for the management's discussion and analysis, but has included the notes to the financial statements. The Village has elected to implement the general provisions of the statement but not the retroactive reporting of the infrastructure in the current year. Certain significant changes in the financial statements include the following:

- Financial statements prepared using full accrual accounting for all of the Village's activities
- A change in the fund financial statements to focus on the major fund

Required Supplemental Information

Village of Pierson

Montcalm County, Michigan

General Fund

Budgetary Comparison Schedule

For the year ended March 31, 2005 with comparative actual amounts for 2004

	Final budget	Actual	Variance with final budget
REVENUES			
Property Taxes			
Property taxes	\$ 17,600	\$ 18,115	\$ 515
Property tax administration fee	300	313	13
Total Property Taxes	17,900	18,428	528
State Grants			
State revenue sharing	19,575	20,162	587
Licenses and Permits			
Business licenses and permits	1,000	1,016	16
Non-business licenses and permits	550	566	16
Total Licenses and Permits	1,550	1,582	32
Charges for Services			
Rent	17,600	14,496	(3,104)
Other Revenue			
Reimbursements	325	286	(39)
TOTAL REVENUES	56,950	54,954	(1,996)

Village of Pierson

Montcalm County, Michigan

General Fund

Budgetary Comparison Schedule

For the year ended March 31, 2005

	Final budget	Actual	Variance with final budget
EXPENDITURES			
General government			
Village Council	\$ 1,700	\$ 1,640	\$ 60
President	900	867	33
Clerk	1,600	1,567	33
Elections	1,091	1,075	16
Buildings and grounds	19,737	13,446	6,291
Attorney	2,400	2,361	39
Total General government	27,428	20,956	6,472
Planning	500	325	175
Parks and recreation department	342	334	8
Department of public works	15,420	15,419	1
Street lighting	3,200	3,070	130
Other			
Social security	3,500	2,846	654
Debt service	8,785	8,595	190
Miscellaneous	100	(142)	242
Total Other	12,385	11,299	1,086
TOTAL EXPENDITURES	59,275	51,403	7,872
NET CHANGE IN FUND BALANCES	(2,325)	3,551	5,876
Fund balance at beginning of year	2,834	2,834	-
Fund balance at end of year	\$ 509	\$ 6,385	\$ 5,876

Village of Pierson

Montcalm County, Michigan

Major Street Special Revenue Fund

Budgetary Comparison Schedule

For the year ended March 31, 2005

	Original and final budget	Actual	Variance with final budget
REVENUE			
Michigan transportation funds	\$ 17,200	\$ 17,205	\$ (5)
Reimbursements	400	403	(3)
TOTAL REVENUE	17,600	17,608	(8)
EXPENDITURES			
Preservation streets			
Salaries	2,250	2,915	(665)
Supplies	1,350	1,431	(81)
Contractual services	5,800	5,650	150
Winter maintenance			
Salaries	1,750	1,733	17
Supplies	220	209	11
Contractual services	1,100	1,062	38
Administration and engineering			
Salaries	600	600	-
TOTAL EXPENDITURES	13,070	13,600	(530)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,530	4,008	522
OTHER FINANCING SOURCES (USES)			
Transfers out	(3,000)	(2,983)	17
NET CHANGE IN FUND BALANCES	1,530	1,025	539
Fund balance	1,565	1,565	-
Fund balance at end of year	\$ 3,095	\$ 2,590	\$ 539

Village of Pierson

Montcalm County, Michigan

Local Street Special Revenue Fund

Budgetary Comparison Schedule

For the year ended March 31, 2005

	Original and final budget	Actual	Variance with final budget
<u>REVENUE</u>			
Michigan transportation funds	\$ (6,700)	\$ 6,745	\$ 13,445
<u>EXPENDITURES</u>			
Preservation streets			
Salaries	2,500	2,698	(198)
Supplies	950	936	14
Contractual services	3,570	3,549	21
Winter maintenance			
Salaries	1,900	1,787	113
Supplies	100	100	-
Contractual services	400	354	46
Administration and engineering			
Salaries	600	550	50
TOTAL EXPENDITURES	10,020	9,974	46
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,720)	(3,229)	13,491
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers in	2,900	2,983	83
NET CHANGE IN FUND BALANCES	(13,820)	(246)	13,574
Fund balance beginning of year	749	749	-
Fund balance end of year	\$ (13,071)	\$ 503	\$ 13,574

Long-term Debt Schedules

Village of Pierson

Montcalm County, Michigan

Schedule of Debt

\$100,000 Sewage Disposal Bonds Series A, Dated November 1, 1984

March 31, 2005

Year ended March 31,	Interest Rate	Principal	Interest	Total
2006	7.750%	\$ 5,000	\$ 3,798	\$ 8,798
2007	7.750%	5,000	3,410	8,410
2008	7.750%	5,000	3,022	8,022
2009	7.750%	6,000	2,635	8,635
2010	7.750%	7,000	2,170	9,170
2011	7.750%	7,000	1,627	8,627
2012	7.750%	7,000	1,085	8,085
2013	7.750%	7,000	542	7,542
Totals		\$ 49,000	\$ 18,289	\$ 67,289

Village of Pierson

Montcalm County, Michigan

Schedule of Debt

\$36,721 Note Payable - Firstbank-Lakeview, Dated December 1, 2002

March 31, 2005

Year ended	Interest					
March 31,	Rate	Principal	Interest	Total		
2006	6.250%	\$ 7,430	\$ 1,165	\$ 8,595		
2007	6.250%	7,900	695	8,595		
2008	6.250%	6,253	194	6,447		
Totals		\$ 21,583	\$ 2,054	\$ 23,637		

AUDITORS' REPORTS

COMMUNICATION WITH AUDIT COMMITTEE OR ITS EQUIVALENT

To the Village Council
Village of Pierson
Montcalm County, Michigan

We have audited the general purpose financial statements of Village of Pierson, Montcalm County, Michigan for the year ended March 31, 2005, and have issued our report thereon dated August 13, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated August 13, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Village of Pierson. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

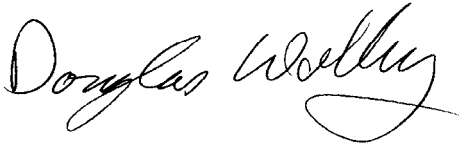
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Pierson's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Pierson are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2005. We noted no transactions entered into by Village of Pierson during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Village Village Council and management of Village of Pierson and is not intended to be and should not be used by anyone other than these specified parties.



Douglas Wohlberg, CPA
Byron Center, Michigan
August 13, 2005

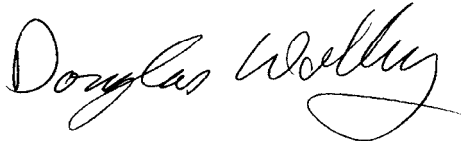
MANAGEMENT COMMENTS LETTER

To the Village Council
Village of Pierson
Montcalm County, Michigan

In planning and performing our audit of the financial statements of Village of Pierson for the year ended March 31, 2005 we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 13, 2005 on the financial statements of Village of Pierson.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations



Douglas Wohlberg, CPA
Byron Center, Michigan
August 13, 2005

MANAGEMENT COMMENTS LETTER

To the Village Council
Village of Pierson
Montcalm County, Michigan

Page 2

Prior comments and suggestions

We had no comments for the year ended March 31, 2003.

Current comments and suggestions

1. Payroll taxes are calculated by the accounting software and posted to a liability account. The payment to the Internal Revenue Service should be charged to this account to eliminate the balance in the liability account. The client has been charging the payment to the Internal Revenue Service to a payroll tax expense account.
2. Transactions between the funds of the Village did not "balance." We recommend the client examine the accounts to ensure that due to other funds equals due from other funds and that transfers in equal transfers out.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Pierson
Montcalm County, Michigan

We have audited the general purpose financial statements of Village of Pierson, Montcalm County, Michigan as of and for the year ended March 31, 2005, and have issued our report thereon dated August 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

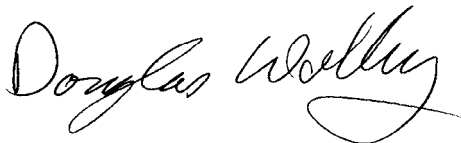
Compliance

As part of obtaining reasonable assurance about whether Village of Pierson's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Pierson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Douglas Wohlberg, CPA
Byron Center, Michigan
August 13, 2005